Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
The Pay Telephone Reclassification and	)	CC Docket No. 96-128
Compensation Provisions of the	)	FCC 02-235
Telecommunications Act of 1996	)	

Comments of the International Prepaid Communications Association, Inc.*

Howard Segermark, Executive Director
904 Massachusetts Avenue, NE
Washington, DC 20002
202.544.4448

December 2, 2003

*In this matter IPCA does not purport to represent Verizon, Bell South, SBC, Qwest, AT&T or other members of the association that are also PSPs.

Before the

Federal Communications Commission
Washington, D.C. 20554

In the Matter of
The Pay Telephone Reclassification and
Compensation Provisions of the
Telecommunications Act of 1996
CC Docket No. 96-128 FCC 02-235

Comments of the International Prepaid Communications Association, Inc.

INTRODUCTION AND BACKGROUND

The International Prepaid Communications Association, inc. (IPCA) respectfully submits these Comments in the above proceeding.

IPCA's comments address the issues raised in the FCC's "[name of proceding], which was begun after petitions submitted by the American Public Communications Council ("APCC") and the RBOC Coalition ("Coalition").

The IPCA makes the following comments in opposition to the intent and the merit of the proposal to increase dial-around compensation (DAC) for payphones, and takes this opportunity to suggest a wider reconsideration of the issue of the FCC policy on public communications facilities.

The issue of DAC is inseparable from the long-standing FCC policy which determined that it is in the national interest to have a certain, unnamed, number of payphones available to the public. This policy, decades old, does not reflect the great number of communications alternatives available to the public today, and it has the effect of increasing the cost of communications to those persons least able to afford over-priced and antiquated technology. Indeed, increasing the DAC "default" rate at this time will most likely spur abandonment of payphone use by those with alternatives and impose the higher costs on those most dependent on payphones – generally low-income persons.

The IPCA represents the prepaid phonecard industry which would have been impossible without the opening of telecommunications to resellers and the diversity that engendered. But it is not widely recognized that the prepaid phonecard industry would not have grown as fast as it did had not the deregulation of payphone long-distance rates resulted in often confiscatory rates imposed on those who used credit cards or deposited coins. Phonecards allowed the consumer to avoid such rates. Today, they continue to offer the most economical way of obtaining long distance service. Phonecards serve 50,000,000 million persons regularly and 61% of the population at least once per year.

The petitions of the PSPs to the FCC which resulted in the current docket is another attempt to impose confiscatory costs on the users of payphones. The petitioners argue that the number of payphones is declining and they say that one reason is that those consumers who have chosen alternative "dial-around" services do not pay enough. To support the argument, they have provided cost analyses by a firm which assiduously ignored key variables in the payphone equation..

One of the key reasons for the request for increased DAC, is the fact that reduced use of payphones mean that the costs must be spread over a smaller number of calls – increase the costs of a given dial-around call. There is not debate about the logic of this statement.

Conspicuously absent in the cost study is any attempt to address the reason for the reduced usage. Surely, wireless communications including prepaid wireless is in part responsible. But it is economically undeniable that the cost of using payphones is a contributing factor to the decline in their use. The demand curve for payphones is not flat, yet the PSP's economic study ignores this truism.

The prepaid phonecard industry has seen a significant decline in the number of calls made on payphones using phonecards, a fact related to a growing number of alternatives, and the recognition on the part of phonecard users of the high cost of DAC.

As wireless telecom becomes cheaper, more people have begun using it. As payphone usage has become more expensive, it is only rational that consumers seek alternatives.

We recommend that the FCC should also consider alternatives to the current policy.

First we recommend that the FCC reconsider its past policy of regarding the marginal payphone as the most important device – and therefore all payphones should be compensated on the basis of that device. We believe that this policy should be recognized as economically perverse and contrary to the public good.

A marginal payphone is by definition the payphone that a rational businessman would consider removing from service – it no longer justifies the costs and the capital investment. In many areas, the government exercises the same judgement on marginal equipment – in the General Service Administration, marginal government cars and trucks are taken out of service and disposed of when their costs (of repair and maintenance) exceed the costs of newer alternatives.

Good public policy would require the Commission to make a similar judgement about communications alternatives – particularly regarding the FCC policy on marginal payphones.

What does it mean to consider the cost of a "marginal" payphone? It means that of a population of less-than two million payphones, there are some that will only be profitable if non-market forces – i.e. government regulation – are used to subsidize them. It also means that the subsidies grant the vast majority of payphones – benefiting from the subsidies provided to the "marginal" phone -- with higher-than-market rates of return because of that subsidy.

Subsidizing the marginal phone is a great economic benefit to the payphone service provider (PSP), but it is also a burden. It means that PSPs have no incentives to adopt innovative technologies – it is foolish to abandon a subsidy. What we don't know is what innovations might come forth. What we do know is that the incentives are against innovation.

It is also important to look that the perverse effect the current DAC system has on the poor and disadvantaged in our society. Prepaid phonecards provide the most economical means of providing the public policy goal of universal service. Phonecards mean that a consumer can use any phone to make a call without imposing costs on the owner of that phone. If a household has no phone service, a phonecard means that the consumer can use a neighbor's phone or a payphone.

If a household has only "lifeline" service, a phonecard is key to making long distance calls.

But, phonecards provide the least-cost alternative to immigrants who recognize that payphone long distance service is still very expensive. Phonecards provide domestic and international long distance service at rates seldom matched by regular home long distance service.

And the declining costs of prepaid wireless service means that those without home land-line phone service can make local calls without using a payphone.

Increasing DAC default rate at this time will have the effect of further reducing payphone usage. And this will, of course, mean that the costs of payphone maintenance will have to be spread over a smaller number of calls, increasing the average cost per call handled by the PSP on the marginal phone. Thus to increase DAC at this time would accelerate the downward spiral of payphone usage and increased per-call costs to the PSP. Under the logic of the PSP's economic justification of a higher DAC, the predictable reduction of payphone usage caused by higher DAC will justify another DAC hike.

The FCC should consider whether or not the current system of subsidizing marginal phones is in the public interest. Through the Universal Service Fund and through state universal funds, it would seem that the question of emergency telecom service should be addressed in this context. In addition, the FCC should consider the various states' ability to recognize needs better than the federal government and the experience they already have in this area.

We therefore urge the FCC to reject any DAC increase at this time and that it consider opening a wide-ranging docket on the underlying issue of public access to telecommunications, the role of emergency telecommunications and the ability of alternate technologies and jurisdictions to serve those needs.

The bizarre effects of doubling the DAC charges a phonecard user would face would mean that to cover these costs, the DAC fees attached to a given call from a payphone would approach one dollar. This would be necessary to recoups the costs of deep discounts to distributors and retailers, plus the record processing and reporting costs. Thus, it would increasingly make payphones economically impractical to the millions of phonecard users.

It may be helpful to explain how such an increase would come about. It is not unusual for a phonecard issuer to offer a large discount to wholesalers and distributors. A 40% discount is not unheard of; to provide incentives for distributors and retailers. Thus if a phonecard issuer receives $6 for every $10 phonecard, he can not cover the proposed DAC cost of $0.40 by reducing the value of a $10 phonecard by $0.40. That would net the issuer only $0.24 (60% of $0.40). The base charge would have to be $0.66 (60% of $0.66 is $0.396). If the issuer added on processing and other costs related to DAC, charges to the consumer would most logically be closer to a dollar to break even.

In addition to the problem in the PSP's cost study related to the causes of payphone use decline, we note that the cost study is deeply flawed in another manner. In its documentation of maintenance costs, it totally ignores the fact that a dial-around call does not use the coin mechanism – the most expensive part of a payphone's maintenance costs. The FCC has previously taken notice of the fact that a coinless call does not use this fact.

Conclusion: just as it was impossible to see what alternatives would develop once telecom competition came about, though the boon of lower costs were predicted. We do know, however, that the competition and innovation we witnessed could not have come about without the removal of the monopoly "subsidy." Thus, the FCC should consider the great alternatives of alternatives to public telecommunications if its DAC subsidy is revoked. The FCC has advocated market mechanisms for DAC. That has not happed because of the effective "default" subsidy. It is time to let the marketplace work. There are great opportunities for innovative businesses and great new technologies for them to employ.
Respectfully submitted,

INTERNATIONAL PREPAID
COMMUNICATIONS ASSOCIATION, INC.

Howard Segermark

Howard Segermark
Executive Director
International Prepaid Communications
Association, Inc.
904 Massachusetts Avenue, NE
Washington, DC 20002
(202) 544-4448

The IPCA is the national trade association for prepaid telecommunications and represents the prepaid phonecard industry. The association has also participated in the Per

Call Compensation Forum.